

Netflix to delay delivery of Warner's latest DVDs

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(AP) -- Netflix Inc. will delay sending out Warner Bros.' latest movies by nearly a month in a concession that the DVD-by-mail service made so it could gain rights to show its subscribers more movies over the Internet.

The 28-day rental moratorium on Warner Bros.' newly released DVDs and Blu-ray discs is a first for Netflix, but it probably won't be the last. Netflix hopes to reach similar deals with other major movie studios later this year, using the Warner Bros. agreement announced Wednesday as a template.

Warner Bros. Home Entertainment's scheduled Jan. 19 releases of "The Invention of Lying" and "Whiteout" will be among the first movies that won't be immediately available to Netflix's 11.1 million customers.

The compromise gives Time Warner Inc.'s movie unit - and potentially other studios - a chance to boost the sales of DVDs, the movie industry's biggest source of profits.

Nearly three-fourths of DVD sales are made during the first four weeks the discs are in the stores, so turning off Netflix's rental channel during that stretch might spur more impulse buying among consumers who can't wait to see a newly released DVD.

"If this causes more of our subscribers to drive down to a store to buy a DVD, we think that will be good for the entertainment ecosystem," said Ted Sarandos, Netflix's chief content officer.

He downplayed the threat of a backlash among subscribers, reasoning that Netflix's library of more than 100,000 DVD titles will give them plenty of other options to tide them over while they wait an extra four weeks.

Newly released DVDs account for about 30 percent of Netflix's shipments.

Blockbuster Inc., which has been losing ground to Netflix in recent years, intends to continue renting DVDs as soon as they are released, spokeswoman Michelle Metzger said.

Warner Bros. doesn't plan to ask Blockbuster to delay renting newly released movies because the video rental chain charges consumers for each title that leaves its shelves, and studios get a cut of revenue under their agreements with Blockbuster, said Warner executive Ron Sanders. By contrast, Netflix's subscribers pay a flat monthly fee, typically ranging from \$9 to \$17, to get an uncapped number of DVDs through the mail.

As Netflix has been embraced by more households, movie studio executives viewed the subscription service as a growing threat to their lucrative stream of DVD sales. Warner Bros. began to publicly pressure Netflix to agree to a rental delay five months ago.

By acquiescing, Netflix will get a steep discount on Warner Bros.' discs - savings that the company intends to use to expand the selection of movies and TV shows available for instant viewing over the Internet.

Warner Bros. already has agreed to contribute hundreds of additional movies to that service - triple the current catalog. They will include many titles that have only been out on DVD for three to eight months.

Investors evidently liked Netflix's strategy as the Los Gatos, Calif., company's shares rose \$1.81, or 3.5 percent, to \$53.32.

Netflix currently offers about 17,000 movies and TV shows for instant viewing, but many of the selections are older or obscure titles.

Internet viewing has become increasingly popular among Netflix's subscribers, especially with an array of devices that have made it easier during the past 19 months to watch the movies on flat-panel TVs instead of small computer screens. As more consumers watch video over the Internet instead of discs that get mailed back and forth, Netflix also reduces postage costs.

Netflix packages offering DVD rentals and unlimited Internet viewing are available for as little as \$9 per month. That price has been attractive enough to spur the company's growth as more consumers looked for less expensive forms of entertainment during the worst recession in 70 years.

Netflix added 1.7 million subscribers during the first nine months of last year, and as many as 1.2 million more were expected to join from October to December, thanks partly to the introduction of Netflix instant viewing over Sony Corp.'s PlayStation 3 game machines.

Movie studio profits have been hurt by the migration to Netflix and other low-cost options such as the DVD-rental kiosks run by Redbox. Adams Media Research estimates DVD and Blu-ray sales fell by 10 percent to \$13 billion last year.

Warner Bros. and other movie studios already tried to prevent Coinstar Inc.'s Redbox from renting DVDs during the first 28 days of their release. Coinstar, though, has gotten around the restrictions by buying the DVDs through other channels, prompting a legal battle that's winding its way through the courts.

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